

The *Wall Street Journal* has an editorial today examining the deficit today and the fiscally "pathological" behavior in the Democrat-led Congress:



- [REVIEW & OUTLOOK](#)
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## **The Audacity of Debt**

### **Comparing today's deficits to those in the 1980s.**

At least someone in America isn't feeling a credit squeeze: Uncle Sam. This week Congress will vote to raise the national debt ceiling by nearly \$2 trillion, to a total of \$14 trillion. In this economy, everyone de-leverages except government.

**It's a sign of how deep the fiscal pathologies run in this Congress that \$2 trillion will buy the federal government only one year before it has to seek another debt hike-conveniently timed to come after the midterm elections. Since Democrats began running Congress again in 2007, the federal debt limit has climbed by 39%. The new hike will lift the borrowing cap by another 15%.**

There is surely bipartisan blame for this government debt boom. George W. Bush approved gigantic spending increases for Medicare and bailouts. He also sponsored the first ineffective "stimulus" in February 2008-consisting of \$168 billion in tax rebates and spending that depleted federal revenues in return for no economic lift.

**Democrats ridiculed Mr. Bush as "the most fiscally irresponsible President in history," but then they saw him and raised. They took an \$800 billion deficit and made it \$1.4 trillion in 2009 and perhaps that high again in 2010.** In 10 months they have approved more than \$1 trillion in spending that has saved union public jobs but has done little to assist private job creation. Still to come is the multitrillion-dollar health bill and another \$100 billion to \$200

billion "jobs" bill.

We've never obsessed over the budget deficit, because the true cost of government is the amount it spends, not the amount it borrows. Milton Friedman used to say that the nation would be far better off with a budget half the current size but with larger deficits. Mr. Obama and his allies in Congress have done the opposite: They have increased the budget by 50% and financed the spending with IOUs.

Our concern is that the Administration and Congress view this debt as a way to force a permanently higher tax base for decades to come. The liberal grand strategy is to use their accidentally large majorities this year to pass new entitlements that start small but will explode in future years. U.S. creditors will then demand higher taxes-taking income taxes back to their pre-Reagan rates and adding a value-added tax too. This would expand federal spending as a share of GDP to as much as 30% from the pre-crisis 20%.

Remember the 1980s and 1990s when liberals said they worried about the debt? We now know they were faking it. When the Gipper chopped income and business tax rates by roughly 25% and then authorized a military build-up, Democrats and their favorite economists predicted doom for a decade. The late Paul Samuelson, the revered dean of the neo-Keynesians, expressed the prevailing view in those days when he called the Reagan deficits "an all-consuming evil."

But wait: Those "evil" Reagan deficits averaged less than \$200 billion a year, or about one-quarter as large in real terms as today's deficit. The national debt held by the public reached its peak in the Reagan years at 40.9%, and hit 49.2% in 1995. This year debt will hit 61% of GDP, heading to 68% soon even by the White House's optimistic estimates.

Our view is that there is good and bad public borrowing. In the 1980s federal deficits financed a military buildup that ended the Cold War (leading to an annual peace dividend in the 1990s of 3% of GDP), as well as tax cuts that ended the stagflation of the 1970s and began 25 years of prosperity. Those were high return investments.

Today's debt has financed . . . what exactly? The TARP money did undergird the financial system for a time and is now being repaid. But most of the rest has been spent on a political

wish list of public programs ranging from unemployment insurance to wind turbines to tax credits for golf carts. Borrowing for such low return purposes makes America poorer in the long run.

By the way, today's spending and debt totals don't account for the higher debt-servicing costs that are sure to come. The President's own budget office forecasts that annual interest payments by 2019 will be \$774 billion, which will be more than the federal government will spend that year on national defense, education, transportation-in fact, all nondefense discretionary programs.

Democrats want to pass the debt limit increase as a stowaway on the defense funding bill, hoping that few will notice while pledging to reduce spending at some future date. Republicans ought to force a long and careful debate that educates the public. Ultimately, the U.S. government has to pay its bills and the debt limit bill will have to pass. **But debt limit votes are one of the few times historically when taxpayer advocates have leverage on Capitol Hill. Republicans and Democrats who care should use it to discuss genuine ways to put Washington on a renewed and tighter spending regime.**

**"Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren," Senator Barack Obama said during the 2006 debt-ceiling debate. "America has a debt problem and a failure of leadership. Americans deserve better." That was \$2 trillion ago, when someone else was President.**